

MANAGEMENT COMMITTEE – 24 NOVEMBER 2021

PROGRESS UPDATE

REPORT OF THE DIRECTOR

Purpose of the Briefing Note

- The purpose of this update is to inform Management Committee of the actions and progress made since the last Management Committee meeting held on 15 September 2021.

Overall Financial Performance

Financial Performance – 6 months to end of September 2021

Summary

Year to September 2021 – Period 6					
£m	Actual	B/(w) than Budget		B/(w) than LY	
Stores Sales	27.7	1.2	4.4%	3.6	14.9%
Direct Sales	10.0	0.2	2.5%	2.8	39.3%
Rebate plus fee income	4.7	1.0	26.4%	0.7	18.0%
Total Sales (Exc Gas)	42.4	2.4	5.9%	7.1	20.2%
Stores Margin %	31.6%	0.3%		1.0%	
Directs Margin %	14.0%	(0.6%)		(0.7%)	
Total Gross Margin	15.6	1.3	9.4%	2.4	17.9%
Total Expenditure	11.1	(0.3)	(2.8%)	(1.0)	(7.9%)
Trading Surplus	4.5	1.0		1.4	
Trading Surplus %	10.7%	2.0%		1.9%	

Expenditure % of sales excl Gas	30.2%	1.7%	3.5%
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Full Year Outturn - Estimate £m	Outturn	B/(w) than Budget	B/(w) than LY
Full Year Surplus	5.1 - 5.7	0 - 0.6	0.4 - 1.0

- Up to the end of September 2021, 6 months into the year, a surplus of £4.5m has been made which is £1.0m better than budget. Trading has remained strong after schools reopened more fully in early March 2021 and we have once again seen strong demand through our peak summer trading period and the September return to school period.

3. In our catalogue business, sales across virtually all categories have returned to more normal, pre-Covid levels. Across frameworks and rebates, the business continues to perform well and grow.
4. The surplus is £1.4m better than last year, as a result of the Covid pandemic and last year's national 'Stay at Home' order which saw most of our customer base close physical offices/schools to all except for key workers/children of key workers.
5. Costs continue to be tightly controlled with expenditure of £11.1m slightly higher than budget due to the cost of servicing higher sales volumes. Staff costs are in line with budget overall. (Costs are £1.0m higher than last year due to additional warehouse and distribution costs needed to service the significantly greater level of sales).
6. Trading through October has been in line with budget.
7. For the full year, the budget is a surplus of £5.1m. Now we have emerged through our peak trading period with a good financial performance we have additional confidence. We are however, mindful of specific unbudgeted costs which will materialise in the second half of the year and a continued risk of Covid/Winter Flu affecting schools and staff. Considering all this, our latest guidance for the full year is a trading surplus in the range of £5.1m - £5.7m. This assumes that we do not experience any significant winter Covid disruption.

Sales and Margin

Sales and Margin						
£m	Actual		B/(w) than Budget		B/(w) than LY	
Stores Sales	27.7		1.2	4.4%	3.6	14.9%
Direct Sales	10.0		0.2	2.5%	2.8	39.3%
Rebate income	4.7		1.0	26.4%	0.7	18.0%
Total Sales	42.4		2.4		7.1	
Stores Margin	8.8	31.6%	0.5	0.3%	1.4	1.0%
Directs Margin	1.4	14.0%	(0.0)	(0.6%)	0.3	(0.7%)
Rebate income	4.7		1.0	(0.6%)	0.7	(0.7%)
Gas Margin	0.1	2.4%	(0.0)	0.0%	(0.1)	(1.2%)
Catalogue Advertising	0.7		(0.0)		(0.0)	
Misc	(0.0)		(0.0)		(0.0)	
Total Gross Margin	15.6	36.9%	1.3	1.2%	2.4	(1.9%)

Gas						
£m	Actual		B/(w) than Budget		B/(w) than LY	
Gas Sales	5.5		(0.6)	(9.6%)	0.5	9.7%
Gas Margin	0.1	2.4%	(0.0)	0.0%	(0.1)	(1.2%)

8. Total sales for the 6 months to September 2021 reached £42.4m, which was £2.4m better than budget and £7.1m better than last year. Even though some

government restrictions remained in place in the UK in spring/summer 2021, schools returning from 8th March 2021 resulted in trading returning to more normal levels. Trading over the summer was also strong with 'peak' sales comparable to previous years.

9. Stores sales were £27.7m and £1.2m / +4% better than budget. Sales across virtually all product categories are higher compared to last year and returning to more normal levels.
10. Comparing to pre Covid levels (2019/20), at a product level:
 - a. Sales within our Cleaning and Catering section are +22% on pre-Covid levels, with enhanced hygiene procedures continuing in schools and driving greater sales of soaps and paper towels.
 - b. Curriculum sales are +22% with greater across most subjects, but in particular spend on Sport and Leisure with schools looking to do more outside.
 - c. Sales of copier paper are down 17%, likely to be a long-term shift away from printing following the impact of remote working during Covid.
11. Reported gross profit margin % for Stores at 31.6% is slightly ahead of budget due to accounting timing adjustments. Looking ahead, we see some possible risk to gross profit margin from global challenges affecting our supply chain such as the lack of availability of shipping containers in the Far East and the continued impact of Covid globally. We are starting to see some requests from suppliers for price rises and there is some risk to 2021/22, although we anticipate a greater risk to next year.
12. Global supply challenges also impacted stock availability, which remained at c94% in September and we finished September with outstanding back orders of £0.3m. This is being closely monitored and managed to fulfil customer orders as promptly as possible. These issues affect the entire market, not just ESPO, and we have seen competitors affected in a similar way. We have been careful in keeping customers up to date and where necessary raising awareness of the issues in global supply.
13. Directs sales were £10.0m were in line with budget. Sales over the summer slowed although we have seen an improvement in late September after schools returned following the summer vacation. Products within our 'Sports and Leisure' and our 'Parks and Amenities' categories are performing particularly well linked to a government bodies encouraging the use of outdoor space and seeing greater usage. Furniture related sales remain slightly below pre-Covid levels (-7%) with some longer lead times currently seen – linked to the global supply chain challenges above.
14. Reported gross profit margin % for Directs at 14% is largely in line with budget.

15. Rebate income of £4.7m is £1.0m better than budget and continuing to perform very well with a wide range of frameworks offered. The Strategic HR Services framework continues to see strong demand as employers looked to support their staff teams both during the pandemic and in preparation for returning to the workplace in some format. Similarly, the Total Cleaning Services Solution framework is also ahead of target linked to Covid.
16. Income from our gas service is in line with budget. This service relates to a customer bill validation service, and also acting as a procurement agent on behalf of customers where we buy their gas on their behalf. These attract a fixed charge and so ESPO's trading surplus isn't exposed to the price volatility seen in the gas market in Summer 2021. The customer ultimately bears this risk, but, part of the service involves ESPO using our expertise and size to forward buying gas to manage this risk more effectively and in line with the agreed risk profile for the service.
17. Our other income from selling advertising space in the catalogue and misc. income like bank interest are all largely in line with budget.
18. Overall gross profit margin at £15.6m is £1.3m better than budget, with the increased sales from good trading flowing through into profit.

Expenditure

Expenditure			
£m	Actual	B/(w) than budget	B/(w) than LY
Employee Costs			
Staff	6.2	0.2	(0.3)
Agency/Contract	1.0	(0.3)	(0.1)
Total	7.2	(0.1)	(0.4)
Overhead Expenses			
Transport	1.3	(0.1)	(0.2)
Warehouse	1.0	(0.1)	(0.1)
Procurement	0.1	0.0	(0.0)
Sales & Marketing	0.6	0.0	(0.1)
	3.0	(0.1)	(0.4)
Finance	0.2	(0.0)	(0.0)
IT	0.6	(0.0)	(0.1)
Directorate	0.2	0.0	0.0
	1.0	(0.0)	(0.1)
Total Overhead Expenses	3.9	(0.2)	(0.5)
Total Expenditure	11.1	(0.3)	(1.0)
As % of Total Sales Excluding Gas	30.2%	1.7%	3.5%

19. Total expenditure of £11.1m was slightly greater than budget (+£0.3m) as a result of greater costs needed to service the greater sales volumes – with the higher costs being seen within agency staff, warehouse and transport. We retain a continued focus on strong cost control across all areas. Costs are £1.0m higher than last year mainly from the cost of fulfilling the additional sales we have seen.
20. Expenditure as a % of sales is one KPI which allows us to measure cost control in relation to sales. At September, this KPI was 30.2%. This is 1.7% better than budget and 3.5% better than last year and shows costs are being controlled in relation to sales activity.

ETL/Eduzone

ETL and Eduzone Combined (YTD to Aug 21)			
£000	Actual	B/(w) than Budget	B/(w) than LY
Total Sales	380.1	-3.1	93.4
Trading Surplus	35.2	29.8	43.3

21. ETL and Eduzone are ESPOs limited companies which service the private sector. They are benefiting from a similar trading experience to ESPO and have seen sales ahead of budget and last year. Overall a small surplus has been generated which is slightly ahead of the budget target.

Full Year Expectation

22. After six months ESPO is £1.0m ahead of budget. Trading through October has been largely in line with budget but we are mindful of several unbudgeted costs which are likely to impact the second half of the year:
- The local Government pay award. The last 'offer' was +1.75%, which would be retrospectively applied from April 2021 and would have unbudgeted cost of c£0.2m. We note that this has been rejected by Unions and so could increase further. (The budget followed the guidance in the Autumn Spending Review which suggested a public sector increase of £250 for staff members earning less than £24k).
 - Additional costs relating to driver pay, agency drivers and courier costs. This could be in the region of £0.1m - £0.2m.
 - Product cost increases in some categories as a result of challenges in the supply chain and the additional shipping costs being seen globally.
 - Increased risk of not recovering some amounts owed from customers due to invoicing and order discrepancies, partly linked to Covid and remote working across customer sites.

23. Considering all this, our latest guidance for the full year is a surplus in the range of £5.1m - £5.7m.

Dividend

24. Each year a dividend is paid out to members after ESPO has traded through its annual summer 'peak' activity period. For 2020/21 Using the approach previously agreed by Management Committee to calculate the dividend, a total dividend pool of £3,333,600 is payable.
25. Amounts payable to individual member authorities from the total dividend pool are determined by their relative spend through ESPO using the approach previously agreed by Management Committee.
26. Management Committee are asked to approve the payment of the dividend pool of £3,333,600.
27. It is proposed that the dividend is paid in early December 2021.

Audit 21/22 (To be completed in summer/autumn 2022)

28. Following a member question in the September Management Committee about audit timings we expedited enquiries about the 21/22 audit to allow a more prompt completion of the financial statements. We have been advised that public sector audits are taking much longer than pre-Covid. Our current auditors, Grant Thornton, have indicated that it will be very difficult, if not impossible, to bring the 21/22 audit to an earlier date.
29. ESPO having changed to 'company' accounting rules (from local government rules) opens up the market of available auditors, and this presents an opportunity to retender the audit contract which expires after the 20/21 audit. (There is an optional extension for 21/22). Retendering should enable more prompt reporting of financial performance and also (potentially) achieve better value given the wider range of providers that are able to audit under company accounting rules (FRS102).
30. Subject to support from Management Committee, support from the Chief Officers Group with a potential tender will be sought to give assurance to members over the process.

ESPO Operational Progress

31. In the back-to school period of September ESPO's distribution centre picked and despatched 216,300 order lines, valued at £5.325m and the transport fleet with couriers made 28,368 deliveries. Warehouse picking was performed at a rate of 27 lines per hour against our target of 32. Social distancing and a shortage of quality agency staff impacting on productivity. The error rate detected by QA was 1% against the budget of 3%. The average order value for stock orders in September was £154.05 against the budget of £162.35 with customer's placing slightly smaller top-up orders.

Operational and IT costs year to September were £6.648m against a budget of £6.254m. Courier costs that were taken in 2021/22 together with non-recurring IT payroll costs and hardware purchases account for the majority of this overspend. Stores margin YTD was 31.6% which is line with budget.

32. September was a busy month across customer services for orders and general enquiries. The Customer Services team handled 13,764 calls across the three customer service lines (customer services, directs and product enquiries) The average speed of answer 57 seconds against a target of 30 seconds reflecting the high number of calls relative to resources. The team processed 34,443 customer orders valued at £4.439m. Online and electronic converted orders in September were at 52% of the total. Direct orders currently valued at nearly £3m are being managed from suppliers to customers. The value of direct orders in transit is higher than the past two years at this time reflecting a reinvestment in the school's infrastructure. Late suppliers are being expedited by the customer services team.
33. We received 24 service ratings from customers on FEEFO providing a slightly disappointing 74% satisfaction rating. Most positive ratings relate to service and delivery with product availability being a source of ongoing frustration. A new contact centre telephony system has been implemented. This provides a number of benefits, including call recording which enables review of calls with staff to improve our customers experience. Improved management information provides a greater depth of information including the reasons for customers calling, helping to identify areas where improvements can be made and opportunities to reduce avoidable demand.
34. Stock availability averaged 94.5% in September with an average of 536 lines temporarily unavailable (£0.3m sales value); stock value was £7.8m with a stock turn of 5.75. Customers are being kept informed of the latest situation via the web site and we have seen an improvement in backorders coming through from suppliers. ESPO continues to rely on external storage to manage its stock holding requirements. This includes exercise book stock held at KCS in Maidstone, by its printer in Poland and at a local 3rd party warehouse.
35. Facilities management in September supported the programme of works to adapt ESPO's offices at Grove Park to meet the needs of the organisation and staff to work flexibly. A project team has been mobilised to deliver this on the ground with a phased return from 15 November in place. This will ensure that ESPO's workplace will be set up to better support collaboration, productivity, wellbeing and customer service. A desk booking system (Skedda) used by LCC has been adopted and the office wi-fi is being upgraded in preparation for the planned changes. The new office layout is taking shape with additional meeting rooms and collaboration space being created. Other activity related to services to air conditioning units, including the server room; fire detection system, including the Gas suppression system of the server room, repairs to the diesel sprinkler pump and the cardboard compactors; The Annual Display Energy Certificate (DEC) was completed and lighting repairs and LED upgrades were undertaken around the office areas.

36. There were four health and safety incidents in September these comprised three incidents with a minor cut to the hand with no further action required. There was a manual handling incident with a driver suffering a back strain resulting in lost time that was reported under RIDDOR. An investigation was completed and incorrect lifting techniques was identified as the immediate cause. The driver was reminded of the correct lifting technique. More first aiders are to be trained to provide additional cover as part of the office re-occupation.
37. The new Drug & Alcohol testing policy was introduced into ESPO in September. This introduces randomized testing alongside 'with-cause' testing for staff in safety critical roles such as LGV drivers and FLT operatives. A new 'hybrid working' health and safety induction has been introduced for all home-based to complete prior to re-occupying offices. This will ensure that staff become familiar with health and safety policies and protocols that have been introduced into the Grove Park building. Finally, CO2 monitors are being purchased to monitor ventilation in offices and meeting rooms.
38. The IT helpdesk handled 549 enquiries with a 100% satisfaction rating from internal customers. September was a relatively quiet month in terms of cyber security incidents with most successful incursions being through user manipulation. These have been specifically prevented by staff action (IT or otherwise) or our technical defences. An alert has been added to service desk tool so that the IT team are immediately notified and directed to review the ticket. The ongoing LCC Cyber Security audit will provide further guidance on all aspects of cyber security strategy. A system refresh is being prepared on the Infor ERP system to ensure that the operating system and middleware are on the latest version and fully supported. A project plan has been uploaded to ITSM and following user testing it is planned to deploy the system upgrade in December.

Staffing

39. Sickness absence due to Covid continues to be well managed despite the increase in infection rates that have occurred nationally over the last quarter. Two employees are currently absent from work with Covid and support will continue to be offered to these individuals. Safe working arrangements remain in place to ensure that the potential of any work-based outbreak is reduced as far as is practicable. The previous increases in sickness absence levels has now stabilised, with the proportion of absences related to coughs and colds being in line with expectations for this time of year.
40. ESPO will shortly be launching a supervisor development programme; ensuring that individuals in these crucial roles receive the right level of support and training to succeed. This will be in addition to revised guidance on how to undertake one-to-ones with staff, which will also be shared shortly. This guidance will reiterate the need for managers to have regular discussions with staff regarding their wellbeing and performance.

41. A staff survey was undertaken during August 2021, and whilst there was a lower response rate than seen in previous surveys, this is in line with the Leicestershire County Council experience. The highest satisfaction rating from staff was that 'Customer Service is at the heart of everything we do' of which 86.9% of respondents either agreed or strongly agreed with. Other high satisfaction levels were seen around ESPO's commitment to equality and diversity (77.2%), ESPO being a good employer (76%) and managers supporting flexible working practices (75.2%). Lower satisfaction ratings were again seen regarding areas of managing and communicating change although improved on two years prior.

ESPO Risk and Governance Update

Health, Safety, Wellbeing and Facilities Management & Corporate Risk Register

42. The ESPO Leadership Team held its quarterly review of Health, Safety and Wellbeing and Major Risk Records (MRRs) and the top risks are attached at Appendix 2 including the addition of a new risk relating to inflationary pressures.

Resources Implications

None arising directly from this report.

Recommendation

Members are asked to note and support the contents of this report.

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Appendices

Appendix 1: Balanced Scorecard
Appendix 2: CRR extract

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